Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

CONFIDENTIAL

PAGE 01 BONN 04260 01 OF 03 151331Z

46
ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 FAA-00 L-03 SS-15 NSC-05 PRS-01

PA-01 USIA-06 H-02 EURE-00 /062 W
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P 151323Z MAR 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 7224
INFO AMEMBASSY LONDON PRIORITY
AMEMBASSY PARIS PRIORITY
USMISSION USBERLIN PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BONN 04260

E.O. 11652: GDS
TAGS: EAIR, GW, WB, UK, US, FR
SUBJECT: CIVAIR: BERLIN CHARTERS TO LONDON AND PARIS

REF: A. STATE 58370 B. BONN 20897 (12-31-75)

1. SUMMARY: EMBASSY SHARES DEPARTMENT'S CONCERN OVER CONTINUED BRITISH AND FRENCH INTRANSIGENCE ON BERLIN CHARTER ISSUE. WE BELIEVE, HOWEVER, OVERT U.S. RETALIATORY ACTION AGAINST BRITISH (AND FRENCH) CARRIERS WOULD BE INEXPEDIENT BEFORE PRESSING IGS ISSUES, MOST NOTABLY PENDING FARE INCREASE, ARE RESOLVED. ANY U.S. ACTION REDUCING AVAILABLE AIR SERVICE FACILITIES FOR WEST BERLINERS WOULD, WE THINK, INDUCE SEVERE CRITICISM FROM FRG/WEST BERLIN QUARTERS AND EXACERBATE EXPECTED STRONGLY NEGATIVE GERMAN REACTION TO FARE INCREASE. MARCH 11 TABLING OF BRITISH PAPER PROPOSING DEVELOPMENT OF NEW ALLIED POLICY ON WEST BERLIN CHARTERS APPEARS TO PROVIDE OPPORTUNITIES FOR U.S. COUNTER-PROPOSALS IN DEFENSE OF PAA'S INTERESTS. FOR THE PRESENT, WE BELIEVE A COMBINATION OF PIECE-MEAL APPROVAL OF UK WEST BERLIN - LONDON CHARTERS, AND A FIRM POSITION IN CAA FORUM ON BRITISH INITIATIVE WOULD BE OUR BEST COURSE OF ACTION.
CONFIDENTIAL

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PAGE 02 BONN 04260 01 OF 03 151331Z

END SUMMARY.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

2. EMBASSY SHARES GENERAL FRUSTRATION WITH BRITISH AND FRENCH INTRANSIGENCE ON BERLIN CHARTER ISSUE. WE NONETHELESS CONTINUE TO HAVE SERIOUS MISGIVINGS REGARDING OVERT U.S. RETALIATORY ACTION IN THE CAA FORUM AGAINST BRITISH OR FRENCH CARRIERS. IN ADDITION TO POINTS MADE IN PARA 4, REF B, OUR PRINCIPAL CONCERN AT THIS JUNCTURE CENTERS ON THE PRESENT FARE INCREASE EXERCISE. WE BELIEVE IT VITALLY IMPORTANT THAT THE INEVITABLE STRONGLY NEGATIVE GERMAN REACTION TO THE FARE INCREASE NOT BE EXACERBATED BY ALLIED MEASURES FURTHER DISADVANTAGING THE BERLIN TRAVELING PUBLIC. WE WOULD, THEREFORE, THINK IT INEXPEDIENT TO TAKE ACTION REDUCING THE AVAILABILITY OF LOW-COST CHARTERS IN WEST BERLIN DURING THIS VERY DELICATE STAGE IN OUR FARE INCREASE PROCESSING.

3. WEST BERLIN'S ACUTE SENSITIVITY TO THESE MATTERS IS WELL-ILLUSTRATED BY THE FACT THAT A BRITISH DECISION TO WITHDRAW THE APPLICATION OF A THIRD BRITISH SUPPLEMENTAL FOR BERLIN - LONDON CHARTERS TAKEN ON MARCH 12 HAS ALREADY ATTRACTED ATTENTION IN WEST BERLIN AVIATION CIRCLES. CONTINUING LOW-KEY FONOFF REFERENCE TO THE LONDON - PARIS CHARTER IMBROGLIO, FURTHER REINFORCES OUR CONCLUSION THAT U.S. MOVE AGAINST BRITISH (OR FRENCH) CARRIERS WOULD RESULT IN IMMEDIATE AND CONSIDERABLE PUBLIC AND OFFICIAL WEST BERLIN CRITICISM WITH ADVERSE IMPLICATIONS FOR THE FARE INCREASE AND OTHER IGS MATTERS REQUIRING ALLIED AND GERMAN COOPERATION.

4. MOREOVER, BRITISH CAA GROVES TABLED A UK PAPER IN THE CAA FORUM ON MARCH 11, ENTITLED "AIR SERVICES IN WEST BERLIN AND POINTS OUTSIDE THE FRG: RELATIONSHIP BETWEEN

CONFIDENTIAL

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PAGE 01 BONN 04260 02 OF 03 151338Z

46
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 EB-07 CAB-02 CIAE-00 COME-00

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

PA-01 USIA-06 SS-15 NSC-05 H-02 /062 W
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P 151323Z MAR 76
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USMISSION USBERLIN PRIORITY

C O N F I D E N T I A L SECTION 02 OF 03 BONN 04260

CHARTER AND SCHEDULED SERVICES". OUR FIRST READING OF THE K PAPER LEADS US TO BELIEVE THAT IT PROVIDES SEVERAL OPENINGS FOR COUNTER-PROPOSALS TO THE BRITISH WHICH WOULD BE WORTH PURSUING. ACCORDING TO GROVES, THE PAPER HAS NOT BEEN PASSED TO ADDRESSEES.

5. THE PAPER BEGINS BY POINTING OUT THAT MOST COMMERCIAL FLIGHTS TO POINTS OUTSIDE THE FRG ARE CHARTERS SINCE NO CONSISTENT DEMAND FOR SCHEDULED SERVICES EXISTS. SEVERAL INTERNATIONAL ROUTES (MOST NOTABLY LONDON AND PARIS), HOWEVER, CLEARLY REQUIRE SCHEDULED SERVICES BECAUSE OF SUBSTANTIAL DEMAND FROM BUSINESS TRAVELERS. GIVEN ALLIED RESPONSIBILITY FOR WEST BERLIN, SERVICES TO THE TERRITORY OF THE THREE POWERS ARE PARTICULARLY IMPORTANT FOR POLITICAL AND PRESENTATIONAL REASONS. THUS THE ROLE OF CHARTERS MUST BE CONTROLLED SO AS TO SUPPLEMENT RATHER THAN REPLACE THE SCHEDULED SERVICES.

6. THE PAPER CONTINUES WITH A DESCRIPTION OF PAA'S BERLIN - LONDON CHARTER ACTIVITIES, HIGHLIGHTING FACT THAT PAA'S CHARTER CARRIAGE INCREASED FROM ZERO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 04260 02 OF 03 151338Z

IN 1974 TO 6800 PASSENGERS IN 1975. DURING THE SAME PERIOD BA'S INCLUSIVE TOUR PASSENGER VOLUME DECLINED BY 6,000, HARDLY AN ACCIDENTAL CORRELATION IN LONDON'S VIEW. EVEN WORSE, REGULAR ECONOMY PASSENGERS DECLINED BY 15 PERCENT, RESULTING IN LOAD FACTORS AS LOW AS 42 PERCENT IN NOVEMBER 1975. (ACCORDING TO GROVES, THE DIFFERENCE IN LONDON'S AND OUR LOAD FACTOR CALCULATIONS IS CAUSED BY THE DOT'S ELIMINATING NON-FARE PAYING PASSENGERS FROM ITS FIGURES.) LONDON, THEREFORE, STOPPED PAA CHARTER OPERATIONS RATHER THAN MOVING AGAINST ALL SUPPLEMENTALS IN THE MARKET BECAUSE
A) PAA WAS THE NEWEST OPERATOR ON THE ROUTE;
B) PAA WAS CARRYING THE BULK OF THE NEW OR "DIVERTED"

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

PASSENGERS;
C) PAA AS THE ONLY SCHEDULED OPERATOR IN THE CHARTER MARKET HAD A DEFINITE PROMOTIONAL ADVANTAGE -- A BETTER "IMAGE" THAN THE SUPPLEMENTALS.

7. MOREOVER, THE SCHEDULED OPERATORS HAVE A "PART CHARTER" FEATURE AVAILABLE PROVIDING FOR A FARE BETWEEN DM 190 AND DM 210 WHICH SHOULD MEET THE DEMAND FOR CHEAP CHARTER FLIGHTS. AUTHORIZATION SHOULD, THEREFORE, BE GIVEN TO CHARTER OPERATORS ONLY WHEN THE AUTHORITIES ARE SATISFIED THAT THE DEMAND FOR CHEAP CHARTER SPACE CANNOT BE MET BY "PART CHARTER" CAPACITIES. THE PAPER THEN SHIFTS TO AN EXAMINATION OF CHARTER OPERATIONS THAT ARE PARTICULARLY DAMAGING TO THE SCHEDULED SERVICES, SUCH AS THOSE WITH "THROW AWAY" ACCOMMODATION COMPONENTS AT RIDICULOUSLY LOW PRICES. LIKEWISE THE CHRONIC ABUSE OF LONG-PERIOD CHARTERS WITH PASSENGERS RETURNING ON DAYS OTHER THAN THOSE INDICATED ON THEIR ORIGINAL VOUCHERS HAS A SERIOUS DIVERSIONARY EFFECT ON THE SCHEDULED SERVICES.

8. THE PRESENTATION CONCLUDES WITH A PROPOSAL THAT THE CAA'S WORK OUT AN ALLIED POLICY ON CHARTERS AND LISTS A NUMBER OF ELEMENTS WHICH "POSSIBLY" COULD FORM THE BASIS OF ANY AGREED GUIDELINES. THESE INCLUDE A REITERATION OF THE IMPORTANCE WHICH SHOULD BE ATTACHED TO ALL SCHEDULED SERVICES AND A STATEMENT THAT MORE "DIRECT LINKS" TO POINTS OUTSIDE FRG COULD BE CONSIDERED CONFIDENTIAL

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AS LONG AS A DISPUTE WITH THE SOVIETS AND GDR IS NOT THEREBY PROVOKED. MOST IMPORTANTLY, THE BRITISH PROPOSE THAT IN DECIDING WHICH CHARTER FLIGHTS TO AUTHORIZE PREFERENCE SHOULD BE GIVEN TO THOSE AIRLINES TRADITIONALLY OPERATING SUCH FLIGHTS ON THE ROUTES IN QUESTION (READ BERLIN - LONDON/PARIS). THE REMAINING POINTS SUGGEST WAYS IN WHICH ABUSES OF CHARTER CONTRACTS COULD BE CORRECTED AND FUTURE PROGRAMS REGULATED SO AS TO AVOID A DIVERSIONARY IMPACT ON THE SCHEDULED SERVICES.

9. IN PRESENTING THE PAPER, GROVES SAID HE HAD RECEIVED NO COLLATERAL INSTRUCTIONS, AND THEREFORE WAS UNABLE TO ADD ANY COMMENT. EMB CAA RESPONDED THAT WE WOULD EF SE WANT TO SEEK ADDITIONAL INSTRUCTIONS BEFORE PROCEEDING TO A FORMAL DISCUSSION OF THE PAPER. OUR FIRST IMPRESSION, HOWEVER,WAS THAT THE
UKG, DESPITE ITS PROPOSAL FOR THE DEVELOPMENT OF NEW CHARTER GUIDELINES, CONTINUED TO FOLLOW A LINE EXCLUDING PAA FROM THE BERLIN - LONDON CHARTER MARKET, WHILE ALLOWING BRITISH SUPPLEMENTALS TO CONTINUE OPERATING.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

ALTHOUGH SOME OF THE POINTS PRESENTED IN THE PAPER --
PARTICULARLY AS REGARDS CORRECTING ABUSES OF THE IT

CONFIDENTIAL

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PAGE 01 BONN 04260 03 OF 03 151341Z

46
ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 EB-07 CAB-02 CIAE-00 COME-00

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P 151323Z MAR 76
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C O N F I D E N T I A L SECTION 03 OF 03 BONN 04260

CHARTER FORMAT -- MIGHT DESERVE FURTHER ATTENTION, WE COULD SEE NO POINT IN COMMENCING SUCH A PROJECT, EXCEPT AGAINST A BACKGROUND OF NON-DISCRIMINATORY ACCESS TO ALL CHARTER MARKETS. GROVES SAID HE APPRECIATED OUR CONCERN AND UNDERTOOK TO REQUEST ADDITIONAL ADVICE FROM LONDON TO DETERMINE IF, IN FACT, HE HAD THE AUTHORITY TO NEGOTIATE A MUTUALLY ACCEPTABLE SET OF CHARTER GUIDELINES.

10. FRENCH CAA LASSUS SAID HE LIKEWISE WOULD NEED PARIS'S INSTRUCTIONS, BUT, SPEAKING PERSONALLY, WELCOMED THE BRITISH INITIATIVE TO SEEK AN AGREED POSITION ON WEST BERLIN CHARTERS. HE NOTED THAT GOF ACTION IN DENYING PAA AUTHORITY FOR PARIS CHARTERS WAS BASED ON ARGUMENTS SIMILAR TO THOSE OF THE BRITISH REGARDING POTENTIAL DAMAGE TO THE SCHEDULED SERVICES. HE EMPHASIZED, HOWEVER, THAT THE GOF HAD AVOIDED ADOPTING A

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

POSITION IN PRINCIPLE THAT OTHER ALLIED CARRIERS SHOULD BE DENIED ACCESS TO THE BERLIN - PARIS MARKET IF COMMERCIAL CONDITIONS MADE SUCH ACCESS FEASIBLE. HE THEREFORE ASSUMED THERE REMAINED SCOPE FOR A MARKET-SHARING
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ARRANGEMENT BETWEEN AF AND OTHER CARRIERS (PAA) SINCE HE SUSPECTED AF DID NOT HAVE THE CAPACITY TO FULLY MEET MARKET DEMAND. HE THOUGHT THE KEY TO ANY SUCH ARRANGEMENT WOULD BE THE PRICING POLICIES OF THE PARTICIPANTS. HE PROMISED TO BE BACK IN TOUCH AS SOON AS HE HAD PARIS'S VIEWS.

11. COMMENT: AS NOTED ABOVE, LEAVING ASIDE THE DEBATABLE CONCLUSIONS IN THE UK'S PAPER ON LOAD FACTOR CALCULATIONS, ETC., WE THINK THE BRITISH PRESENTATION PROVIDES SEVERAL OPPORTUNITIES FOR NEW ATTEMPTS AT REASSERTING PAA'S INTERESTS ON THE LONDON AND PARIS ROUTES. AS A FIRST APPROACH WE WOULD INFORM THE BRITISH CAA THAT THE U.S., ALTHOUGH NOT CONVINCED THAT THE SCHEDULED SERVICES TO LONDON ARE THREATENED, WOULD BE WILLING TO COOPERATE IN THE DEVELOPMENT OF NEW GUIDELINES GOVERNING CHARTERS PROVIDED THAT A) LONDON PERMITTED PAA TO RE-ENTER THE MARKET IMMEDIATELY OR B) ALL CHARTER ACTIVITIES TO LONDON WERE STOPPED UNTIL MUTUALLY ACCEPTABLE CONTROLS WERE NEGOTIATED AFTER WHICH THE MARKET WOULD BE AVAILABLE TO ALL ALLIED CARRIERS.

12. AS AN ALTERNATIVE OR FALL-BACK WE COULD OFFER TO TEST THE UK PAPER'S CONTENTION THAT THE "PART CHARTER. FACILITY AVAILABLE TO THE SCHEDULED CARRIERS COULD IN FACT "MEET THE NEEDS OF THE BERLINER FOR CHEAP CHARTER FLIGHTS". THIS WOULD, OF COURSE, IMPLY THAT ALL SUPPLEMENTAL ACTIVITIES WOULD HAVE TO CEASE DURING THE TEST PERIOD. (WE WOULD WANT TO DISCUSS THIS FIRST WITH PAA TO DETERMINE IF SUCH AN APPROACH WOULD BE COMMERCIALLY AND OPERATIONALLY FEASIBLE.)

13. SINCE, IN OUR VIEW, WE SHOULD DELAY ANY OVERT RETALIATORY ACTION UNTIL AFTER THE FARE INCREASE, WE BELIEVE WE HAVE NOTHING TO LOSE IN E PURSUING ONE OR ANOTHER OF THE APPROACHES OUTLINED ABOVE IN THE CAA FORUM. WHILE NOT PARTICULARLY SANGUINE ABOUT THE UK'S WILLINGNESS TO WITHDRAW BRITISH SUPPLEMENTALS FROM THE LONDON ROUTE AS PART OF A CAA REVIEW OF THE CHARTER REGIME, WE BELIEVE THE FACT THAT THE UKG FELT THE NEED OF PRODUCING A PAPER SUGGESTS A DEGREE OF UNEASE WITH
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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

THE RESTRICTIVE POSITION TOWARD PAA ADOPTED BY THE DOT. MOREOVER, BRITISH REACTION THUS FAR TO EMB CAA'S PRACTICE OF CONCURRING IN DANAIR AND LAKER LONDON CHARTERS ON A PIECE-MEAL BASIS HAS BEEN MUTED. (WE WILL, OF COURSE, MAKE AN EXCEPTION FOR EIGHT MOD SPONSORED TROOP REPLACE-MENT FLIGHTS BY BRITANNIA SCHEDULED FOR APRIL.) WE LEARNED FROM PAA RECENTLY THAT GROVES HAD INFORMED LAKER THE OUTLOOK FOR THE REST OF THE CARRIER'S BERLIN/LONDON PROGRAM WAS UNCERTAIN. AS A CORROLLARY TO OUR SUGGEST-TIONS REGARDING A RESPONSE TO THE BRITISH PAPER, WE PRO-POSE TO CONTINUE APPROVING SUCH CHARTER APPLICATIONS INDIVIDUALLY. ON BALANCE, WE CONCLUDE A COMBINATION OF FOOT DRAGGING ON CAA APPROVALS AND THE DEVELOPMENT OF FIRM COUNTER-PROPOSALS TO THE BRITISH INITIATIVE IN THE CAA FORUM WOULD BE THE BEST COURSE TO FOLLOW FOR THE TIME BEING, UNTIL OTHER PRESSING IGS ISSUES, SUCH AS THE FARE INCREASE, AND PROBLEMS OF GERMAN PUBLIC AND OFFICIAL ATTITUDES TOWARD THE ALLIED CARRIERS ARE RESOLVED. WE CAN, OF COURSE, REEVALUATE THE SITUATION ANY TIME BRITISH, FRENCH OR GERMAN REACTIONS WARRANT. COPIES OF THE BRITISH PAPER ARE BEING POUCHED TO INTERESTED ADDRESSEES. HILLENBRAND

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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Margaret P. Grafeld
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